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January 16, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **CENTERS FOR INNOVATION IN HEALTH, MENTAL HEALTH, AND
SOCIAL SERVICES, DBA PROTOTYPES – A DEPARTMENT OF
MENTAL HEALTH AND DEPARTMENT OF PUBLIC HEALTH
CONTRACT SERVICE PROVIDER – CONTRACT COMPLIANCE
REVIEW – FISCAL YEARS 2009-10, 2010-11, AND 2011-12**

We completed a contract compliance review of Centers for Innovation in Health, Mental Health, and Social Services, DBA Prototypes (Prototypes or Agency), which covered a sample of transactions from Fiscal Years (FYs) 2009-10, 2010-11, and 2011-12. The Department of Mental Health (DMH) contracts with Prototypes to provide mental health services, including interviewing Program clients, assessing their mental health needs, and implementing a treatment plan. The Department of Public Health (DPH) Division of HIV and STD Programs (DHSP) also contracts with Prototypes to provide substance abuse residential rehabilitation services.

The purpose of our review was to determine whether Prototypes provided the services in accordance with their County contracts. We also evaluated the Agency's accounting records, internal controls, and compliance with the contract and applicable guidelines.

DMH paid Prototypes approximately \$6.3 million on a cost-reimbursement basis for FY 2010-11. DPH paid the Agency \$190,488 on a fee-for-service basis from March 1, 2010 through February 29, 2012. The Agency provides services in the First and Fifth Supervisorial Districts.

Results of Review

DMH Program Review

Prototypes staff assigned to the DMH Program had the required qualifications. However, Prototypes billed DMH \$749 for Crisis Intervention services without documenting activities related to Crisis Intervention, and did not always document their client case files in accordance with the DMH contract. Specifically, Prototypes did not:

- Adequately describe the clients' symptoms and behaviors consistent with the Diagnostic and Statistical Manual of Mental Disorder (DSM) to support the diagnosis in 14 (70%) of the 20 Assessments reviewed.
- Complete 17 (85%) of the 20 Client Care Plans reviewed in accordance with their DMH contract.
- Describe what the clients or staff attempted and/or accomplished towards the clients' goals on 11 (55%) of the 20 Progress Notes reviewed.
- Obtain Informed Consent forms for five (50%) of the ten clients, who received treatment with psychotropic medication.

Prototypes' attached response indicates that they will repay DMH the \$749, and will participate in documentation training to be provided by Auditor-Controller and DMH to ensure they comply with all DMH documentation standards.

DHSP Program and Fiscal Review

Prototypes' Cost Allocation Plan was not prepared in compliance with the County contract. As a result, the Agency did not allocate shared expenditures equitably as required. Prototypes also did not maintain adequate documentation to support \$26,368 in expenditures. Specifically:

- Prototypes allocated their February 2012 health insurance expense, totaling \$1,801, based on predetermined payroll expenditures, and not actual expenditures.
- Prototypes did not require employees to record their actual hours worked on the DHSP Program on a daily basis as required, or provide other documentation to support the payroll expenditures charged to the DHSP Program. The unsupported expenditures for February 2012 totaled \$4,887.
- DHSP paid Prototypes \$117,892. However, Prototypes' accounting records only supported \$98,212 in Program expenditures, resulting in \$19,680 in questioned costs. Prototypes indicated that the discrepancy was due to unrecorded payroll

expenditures. However, we could not determine if the additional staff actually worked on the Program, because staff did not report actual hours worked each day by program on their timecards as required.

Prototypes' response indicates that their methodology has been accepted for many years, and is satisfactory according to the federal Office of Management and Budget (OMB) Circular A-122 and Generally Accepted Accounting Principles (GAAP). However, the OMB Circular requires that the distribution of salaries and wages be supported by personnel activity reports, and those reports should reflect the activity of each employee. The OMB Circular also requires that these activity reports reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) cannot be used to support charges.

Prototypes also indicated that the Agency allocates payroll costs based on actual hours worked. The "actual hours worked" is based on their Payroll Authorization Forms (PAF), which are reviewed periodically by management to ensure the allocations accurately reflect actual time and effort for each staff member. However, Prototypes did not provide supporting documentation, such as time studies documentation or timecards showing the employees' actual hours each day by program, to support the PAFs.

- Prototypes did not have adequate controls over checks, and allowed a check signer full access to the Agency's accounting records and blank checks.

Prototypes' response indicates that their policy is to require that all checks of \$1,000 or more have two signatures. However, since checks under \$1,000 only require one signature, and an authorized check signer also had full access to the Agency's accounting records and blank checks, the Agency's controls were not adequate to mitigate the risk of inappropriate transactions. Prototypes indicated that they have since reassigned blank check stock control to another employee.

- Prototypes' client fee determination system shows fees should be charged to clients with incomes under the federal poverty level. Charging fees to low-income clients would violate the federal Ryan White CARE Act.

Prototypes' response indicates that they do not charge fees to clients with incomes below the federal poverty level. However, the Agency's unapproved sliding fee schedule does indicate a fee would be charged to clients with incomes under the federal poverty level.

- Prototypes' client fee schedule was not approved by DPH as required by the County contract.

Prototypes' response indicates that they will submit their client fee schedule to DPH for approval.

Details of our review, along with recommendation for our corrective action, are attached.

Review of Report

We discussed our report with Prototypes, DMH, and DPH. Prototypes' attached response indicates that they will repay DMH \$749, and that they agree with our findings and recommendations related to the DMH Program review. Prototypes' response also indicates that they agree with some of our findings and recommendations, and disagree with some other findings and recommendations related to the DPH Program review. DPH indicated they will work with Prototypes to resolve the findings and recommendations with which the Agency disagrees.

We thank Prototypes for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JLS:DC:EB

Attachments

c: William T Fujioka, Chief Executive Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Jonathan E. Fielding, Director, M.D., M.P.H, Department of Public Health
Karen Pointer, Esq., Chair, Board of Directors, Prototypes
Cassandra Loch, Executive Director, Prototypes
Public Information Office
Audit Committee

**CENTERS FOR INNOVATION IN HEALTH, MENTAL HEALTH, AND SOCIAL
SERVICES, DBA PROTOTYPES
DEPARTMENT OF MENTAL HEALTH AND DEPARTMENT OF PUBLIC HEALTH
CONTRACT COMPLIANCE REVIEW
FISCAL YEARS 2009-10, 2010-11, AND 2011-12**

DMH PROGRAM REVIEW

BILLED SERVICES

Objective

Determine whether Centers for Innovation in Health, Mental Health, and Social Services, DBA Prototypes, (Prototypes or Agency) provided the services billed to the Department of Mental Health (DMH) in accordance with their DMH contract.

Verification

We selected 40 billings, totaling 3,957 minutes, from 233,409 service minutes of approved Medi-Cal billings from May and June 2011, which were the most current billings available at the time of our review (May 2012). We reviewed the Assessments, Client Care Plans, Progress Notes, and Informed Consents in the clients' charts for the selected billings. The 3,957 minutes represent services provided to 20 clients.

Results

Prototypes billed DMH \$749 for 193 minutes in unsupported Crisis Intervention services. Specifically, the Agency did not describe activities related to the Crisis Intervention services in one Progress Note billed for 193 service minutes. In addition, Prototypes needs to improve the documentation in their Assessments, Client Care Plans, Progress Notes, and Informed Consents as required by their DMH contract.

Assessments

Prototypes did not adequately describe the clients' symptoms and behaviors consistent with the Diagnostic and Statistical Manual of Mental Disorder (DSM) to support the diagnosis in 14 (70%) of the 20 Assessments reviewed. The DSM is a diagnostic manual published by the American Psychiatric Association for mental health professionals, which lists different categories of mental disorders and the criteria for diagnosing them. The DMH contract requires the Agency to follow the DSM when diagnosing clients. Client Assessments must include a clear reason for referral for mental health services, must document the signs and symptoms that support the diagnosis, and the severity of impairment within the client's work, school, or community settings.

Client Care Plans

Prototypes did not complete some elements of the Client Care Plans in accordance with the DMH contract for 17 (85%) of the 20 Client Care Plans reviewed. Specifically:

- Twelve Client Care Plans for Mental Health Services did not contain objectives that were specific to the clients' mental health needs.
- Five Client Care Plans for Targeted Case Management did not contain objectives linked to the clients' functional impairments and diagnosis.

Progress Notes

Eleven (55%) of the 20 Mental Health Progress Notes reviewed were not completed in accordance with the DMH contract. Specifically, the Progress Notes did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals.

Informed Consent

Prototypes did not obtain Informed Consent forms for five (50%) of the ten clients, who received treatment with psychotropic medication. Informed Consent forms document the clients' agreement to a proposed course of treatment based on receiving clear, understandable information about the treatments' potential benefits and risks.

Recommendations**Prototypes management:**

1. **Repay DMH \$749.**
2. **Maintain adequate documentation to support the service minutes billed to DMH.**
3. **Ensure that Assessments, Client Care Plans, Progress Notes, and Informed Consents are completed in accordance with the County contract.**
4. **Ensure that Informed Consents are obtained and documented in the client's chart.**

STAFFING QUALIFICATIONS**Objective**

Determine whether Prototypes treatment staff had the qualifications to provide the Program services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 20 treatment staff who provided services to DMH clients during May and June 2011.

Results

Each employee had the qualifications required to provide the services billed.

Recommendation

None.

PRIOR YEAR FOLLOW-UP**Objective**

Determine the status of the recommendations reported in the prior Auditor-Controller monitoring review.

Verification

We verified whether Prototypes had implemented the four recommendations from our October 20, 2006 FY 2005-06 monitoring review.

Results

Prototypes did not implement two (50%) of the four recommendations from the prior monitoring report. As previously indicated, the outstanding findings are related to Recommendations 2 and 3 in this report.

Recommendation

5. Prototypes management implement the outstanding recommendations from the prior monitoring report.

DPH - DHSP REVIEW**ELIGIBILITY/BILLED SERVICES****Objective**

Determine whether Prototypes provided services to individuals who met the eligibility requirements of the Department of Public Health (DPH) Division of HIV and STD Programs (DHSP). In addition, determine whether Prototypes provided the services billed to DPH in accordance with their County contract.

Verification

We reviewed the case files for all four clients who received services in February 2012 for documentation of their eligibility for DPH services. In addition, we reconciled the days the Agency billed DPH to the documentation in the clients' files.

Results

Prototypes did not maintain adequate documentation of eligibility for three (75%) of the four clients reviewed. Specifically, Prototypes did not maintain proof of residency as required by Exhibit I-8 of the County contract. After our review, Prototypes provided eligibility documentation for the three clients.

In addition, Prototypes' client fee determination system was not in compliance with the County contract. Specifically, Prototypes' client fee determination system indicates that fees would be charged to clients with incomes below the federal poverty level. While we did not identify any fees paid by low-income clients, charging a fee to those clients would violate the Ryan White CARE Act. Prototypes' client fee schedule was also not approved by DPH as required by the Additional Provisions of the County contract.

Recommendations**Prototypes management:**

- 6. Maintain adequate documentation to support the clients' eligibility.**
- 7. Ensure that the Agency's client fee determination system complies with the County contract.**
- 8. Obtain DPH approval of the client fee schedule.**

CASH/REVENUE**Objective**

Determine whether the Agency deposited cash receipts timely, and recorded revenue properly in the Agency's accounting records.

Verification

We interviewed Agency's personnel, and reviewed their financial records and February 2012 bank reconciliation.

Results

Prototypes deposited cash receipts timely, and recorded revenue properly. However, the Agency did not require two authorized signatures on all checks. In addition, an authorized check signer had full access to the Agency's accounting records, blank check stock, authorized deposits, received checks, and reviewed the bank reconciliations.

Recommendation

9. **Prototypes management maintain adequate internal controls over cash and disbursements by requiring two authorized signatures on all checks and maintaining adequate segregation of duties.**

COST ALLOCATION PLAN**Objective**

Determine whether the Agency prepared its Cost Allocation Plan (Plan) in compliance with the County contract, and used the Plan to allocate shared expenses appropriately.

Verification

We reviewed Prototypes' Plan, interviewed management, and a sample of shared costs the Agency incurred from May 2011 to February 2012.

Results

Prototypes' Plan was not prepared in compliance with the County contract and the federal Office of Management and Budget (OMB) Circular A-122. Specifically, the Plan required the Agency to use predetermined payroll expenditures to allocate shared expenditures, which does not allocate shared expenditures equitably as required. OMB Circular A-122 requires salary and wage distributions to be supported by personnel activity reports that reflect the distribution of activity of each employee. The OMB

Circular also requires that these activity reports indicate an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) cannot be used to support charges. For example, Prototypes allocated their February 2012 health insurance expenditures, totaling \$1,801, based on predetermined payroll expenditures, not actual expenditures.

Recommendations

Prototypes management:

10. **Reallocate the \$1,801 based on an approved Cost Allocation Plan, and repay DPH for any overbilled costs.**
11. **Develop a Cost Allocation Plan that complies with the County contract.**
12. **Reallocate FY 2011-12 shared expenditures based on an approved Cost Allocation Plan, and repay DPH for any overbilled costs.**

EXPENDITURES

Objective

Determine whether direct expenditures charged to the DPH Program were allowable under the County contract, properly documented, and accurately billed.

We did not perform testwork in this area because Prototypes did not expend DPH funds on direct non-personnel expenditures.

PAYROLL AND PERSONNEL

Objective

Determine whether Prototypes charged payroll expenditures to the DHSP Program appropriately, and maintained personnel files as required.

Verification

We traced the payroll expenditures for all three employees who worked on the Program, for February 2012, totaling \$4,887, to the Agency's payroll records and time reports. We also reviewed the personnel files for DPH Program staff.

Results

Prototypes maintained personnel files as required by the County contract. However, the Prototypes' payroll expenditures charged to the DPH Program were unsupported.

Specifically, Prototypes did not require employees to record their actual hours worked by program on a daily basis, or provide other documentation to support the payroll expenditures charged to the DPH Program. Page AP-10 of the County contract's Additional Provisions requires agencies to keep payroll records showing employee time by program on a daily basis. Questioned costs totaled \$4,887 for the payroll records reviewed.

Recommendations

Prototypes Management:

13. Repay DPH \$4,887, or provide documentation to support the expenditures.
14. Determine the total amount of unsupported payroll expenditures for the program year, and repay DPH for any amounts overpaid, and provide DPH with documentation to support the amount charged for payroll.
15. Ensure employees record their actual hours worked on the DPH Program on a daily basis.

COST REPORTS

Objective

Determine whether the Agency's Cost Reports reconciled to the accounting records.

Verification

We traced the Agency's March 2010 through February 2012 Cost Reports to the Agency's accounting records.

Results

Prototypes' Cost Reports did not reconcile to their accounting records. Specifically, Prototypes' Cost Reports reported \$102,555 in expenditures, while their accounting records only showed \$98,212 in expenditures, resulting in \$4,343 in unsupported expenditures.

Prototypes also did not return unspent funds to DPH as required by Amendment 3 of the County Contract. DPH paid Prototypes \$117,892, resulting in an additional \$15,337 (\$117,892 - \$ 102,555) in unspent revenue. Questioned costs totaled \$19,680 (\$4,343 + \$15,337).

After our review, Prototypes submitted a revised cost report to DPH. On their revised Cost Report, Prototypes reported \$117,969 in expenditures. According to the documentation provided, the increased expenditures were due to additional payroll expenditures. However, we could not determine if the payroll costs were valid because staff did not report actual hours worked each day by program as required.

Recommendations**Prototypes management:**

16. Repay DPH \$19,680, or provide documentation to support the expenditures.
17. Ensure the Cost Reports reconcile to the Agency's accounting records.
18. Return unspent revenue to DPH as required.



October 1, 2012

Wendy Watanabe
Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
500 West Temple Street, Room 525
Los Angeles, California 90012-3873

Dear Ms. Watanabe:

Please find Prototypes' responses below to the draft contract compliance review.

Objective

Determine whether Centers for Innovation in Health Mental Health and Social Services DBA Prototypes (Prototypes or Agency) provided the services billed to the Department of Mental Health (DMH) in accordance with their DMH contract.

Results

Prototypes billed DMH \$749 for 193 minutes in unsupported Crisis Intervention services. Specifically, the Agency did not describe activities related to the Crisis Intervention services in one Progress Note billed for 193 service minutes. In addition, Prototypes needs to improve the quality of documentation in their Assessments, Client Care Plans, Progress Notes, and Informed Consents as required by the DMH contract.

Response

Prototypes has met with key representatives in a formal exit interview and agrees to the findings of the DMH Program Review, including repayment of \$749. Prototypes' staff will participate in a series of documentation trainings provided by the Auditor-Controller Contract Monitoring Division and DMH to ensure that staff are in compliance with all DMH documentation standards.

Objective

Determine whether Prototypes provided services to individuals who met the eligibility requirements of the Department of Public Health (DPH) Division of HIV and STD Programs (DHSP). In addition, determine whether Prototypes provided the services billed to DPH in accordance with their County contract.

Recommendation

Prototypes did not maintain adequate documentation to support the eligibility for three (75%) of the four clients reviewed. Specifically, Prototypes did not maintain proof of residency to support the eligibility as required by Exhibit I-8 of the County contract for three (75%) of the four clients reviewed. After our review, Prototypes provided additional documentation to support the eligibility of the three clients.

Prototypes also billed DPH 28 units of services for one client in February 2012. However, according to the client's case file, the client left the facility to visit family for two of those 28 days. Total questioned costs were immaterial.

In addition, Prototypes' client fee determination system was not in compliance with the County contract. Specifically, Prototypes charged fees to clients with incomes under the federal poverty level, which is not allowable under the Ryan White CARE Act. Prototypes' client fee schedule was also not approved by DPH as required by the Additional Provisions of the County contract.

Response

Prototypes maintains adequate documentation to support the client eligibility, and, as the draft contract compliance review indicates, provided support for the three clients mentioned in the report. Prototypes will continue to ensure that staff conducting the admission process will obtain proof of residency to support the eligibility as required by Exhibit I-8 of the County contract for all clients admitted for services under this funding source.

Prototypes does not charge fees to clients with income levels that fall under the federal poverty level. Prototypes will submit client fee schedule to DPH for approval. All fees are charged in accordance with what is allowable under the Ryan White Care Act.

Objective

Determine whether Prototypes had adequate controls to ensure cash receipts and revenue were recorded in the Agency's financial records properly, cash receipts were deposited into the Agency's bank account timely, and bank account reconciliations were reviewed and approved by Agency management.

Recommendation

Prototypes recorded revenue in their financial records properly, deposited DPH payments into the Agency's bank account timely, and prepared bank reconciliations monthly. However the Agency did not maintain adequate internal controls over cash and disbursements. Specifically, Prototypes does not require two authorized signatures on all checks. In addition, an authorized check signer has full access to the Agency's accounting records, blank check stock, authorizes deposits, receives checks, and reviews the bank reconciliations.

Response

During the review, Prototypes ensured an authorized check signer no longer had access to the blank check stock by reassigning blank check stock control.

As explained during the review, Prototypes' policy is to ensure all checks of \$1,000 or more require two Board of Directors and Bank authorized signatures. All invoices require proper approval and signature prior to check processing regardless of dollar amount, and all new vendors must be approved prior to authorization of payment. Prototypes contends that these and other internal controls in place appropriately mitigate any risk.

Objective

Determine whether the Agency prepared its Cost Allocation Plan in compliance with the County contract, and used the Plan to allocate shared Program costs appropriately.

Recommendations

Prototypes' Cost Allocation Plan was not prepared in compliance with the County contract. Specifically, the Agency's Cost Allocation Plan required the Agency to use predetermined payroll expenditures to allocate shared expenditures, which does not allocate shared expenditures equitably as required by the County contract. For example, Prototypes allocated their February 2012 health insurance expenditures based on predetermined payroll expenditures not actual expenditures. Questioned costs totaled \$1,801.

Response

Prototypes applies an average Agency-wide interim fringe rate of 27% to actual salary/payroll expenditures. However, Prototypes reconciles the rate with the actual fringe benefit expense and credits the contract any difference as to ensure the contract is only charged the actual fringe expense contrary to the finding listed above. Prototypes' methodology has been accepted for many years and is satisfactory according to OMB Circular A-122 and GAAP. Detailed reconciliation schedules were provided during the review, along with the General Ledger, which validate the credit to the contract. There are no operating expenses allocated to this contract.

Objective

Determine whether Prototypes charged payroll expenditures to the DPH Program appropriately, and maintained personnel files as required.

Recommendation

After our review, Prototypes submitted a revised cost report to DPH. On their revised cost report, Prototypes reported \$117,969 in expenditures. According to the documentation provided, the increased expenditures were due to an additional staff's payroll expenditures charged to the Program. However, we could not determine if the additional staff actually worked on the DPH Program based on the timecards provided since they did not report actual hours worked each day by program as required. In addition, the Agency did not provide documentation to support

that the additional staff's payroll expenditures were not already charged and recouped from one of their other programs.

Response

As detailed during the review, Prototypes allocates payroll costs based on actual hours worked. The PAF, which were provided for all staff during the review, detail allocations for each employee. PAFs are reviewed periodically by management, who have firsthand knowledge of each employee's time allocation, to ensure allocations accurately reflect actual time and effort for each staff member. The allocations were determined to be accurate reflections of actual time and effort spent working on the contract and serving clients on the contract.

Any documentation that was requested at the time of the review was provided. Prototypes will, however, provide any additional documentation needed to support that the additional staff's payroll expenditures were not recouped from any other programs.

As mentioned in the report, Prototypes' cost reports reconcile with all accounting records.

Should you have any questions or require additional information, please contact me at lmartin@prototypes.org or (213) 542-3847.

Sincerely,



Levi Martin
Vice President, Finance and Administrative Operations

cc: Cassandra Loch, President and Chief Executive Officer
April Wilson, Vice President, Mother and Child Residential Treatment
Merilla Scott, Vice President, Outpatient Behavioral Health Services